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**Before the**  
**FEDERAL COMMUNICATIONS COMMISSION**  
**Washington, D.C. 20554**

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FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF THE SECRETARY

<b>In the Matter of</b>	)	
	)	
<b>Access Charge Reform</b>	)	<b>CC Docket No. 96-262</b>
	)	
<b>Price Cap Performance Review</b>	)	<b>CC Docket No. 94-1</b>
<b>For Local Exchange Carriers</b>	)	

**OPPOSITION OF SPRINT TO  
ALTS/FOCAL PETITION FOR RECONSIDERATION**

Sprint Corporation joins in the opposition to petitions for reconsideration being filed jointly by the members of the Coalition for Affordable Local and Long Distance Service (CALLS) in support of the Commission's Sixth Report and Order in CC Docket Nos. 96-262 and 94-1, Report and Order in CC Docket No. 99-249, and Eleventh Report and Order in CC Docket No. 96-45 ("CALLS Order") (FCC 00-193, released May 31, 2000). However, Sprint is filing this separate opposition to address certain contentions in the Petition for Reconsideration filed jointly by the Association for Local Telecommunications Services and Focal Communications Corporation ("ALTS/Focal"). Specifically, Sprint will address their contentions that it was arbitrary to target access charge reductions to local switching and that the Commission failed to consider adequately the alleged adverse competitive impact of reductions in local switching charges.

**I. TARGETING ACCESS REDUCTIONS TO THE LOCAL SWITCHING ELEMENT IS ENTIRELY JUSTIFIED BY UNDERLYING COSTS**

Although ALTS/Focal argue at length against the targeted switched access reductions in the CALLS plan (Petition at 2-11), their entire argument is predicated on an alleged inconsistency between the targeted reductions adopted in the CALLS Order and the traditional price cap regulation that has been applied to large LECs over the past 9 years. Their argument overlooks the fact that the access reform plan adopted in the CALLS Order is not an incremental change in price cap regulation; instead, it is a sea change in the way the Commission regulates large LEC access charges. Rather than continuing to engage in the difficult task of measuring past productivity changes and then projecting the productivity growth that can reasonably be expected of large LECs in the future, as was the case with price cap regulation, the CALLS plan instead targets annual reductions in access charges, principally at the local switching element, until the average rate per minute reaches a specified level, after which no further reductions are mandated for the life of the plan. Although the factor used for these annual reductions is the same 6.5% factor that had been previously adopted as the “X-factor” for price cap purposes, the concept behind the CALLS plan is fundamentally different: the plan (1) largely eliminates — and at the very least drastically reduces — the carriers’ carrier charges for the common line (which, after all, are non-traffic sensitive and should be borne by the end user as a fixed cost of his or her local service); (2) uses the 6.5% factor to reduce carriers’ carrier charges for local switching and switched transport to levels that are at least within striking distance of efficient long-run incremental costs; and (3) once these charges reach that range, freezes them until a specified point in time, after which the

Commission can reevaluate whether further changes in the levels of those charges are warranted. This is a far more rational approach to access charges than continuing, as was the case under traditional price cap regulation, a mechanistic approach of requiring uniform annual percentage reductions in price cap indices for all the elements of access into the indefinite future without regard to how the resulting rates relate to underlying costs.

Even if the CALLS plan were viewed within the traditional framework of price cap regulation, targeted reductions in local switching rates would have been entirely appropriate. There is no “magic” to applying a productivity factor across the board to all access elements into the indefinite future. Indeed, such an approach would be rational only if productivity increased uniformly in all aspects of the offering of local service. However, that has not been the case. If, instead of adopting the CALLS plan, the Commission had continued with its traditional across-the-board use of a productivity X-factor, and failed to weigh the results of its traditional price cap regulation meaningfully against the underlying costs of major components of switched access charges, it would have been blinking reality.

Since the inception of price caps, significant technological advancements have occurred in the local network, but such advancements have not been uniform in the piecemeal parts of the local networks. The most dramatic advances lie in switching — including both the basic transition from analog switches to digital switches, and the subsequent advances in electronics that make digital switches today much less expensive than switches of similar capabilities several years ago. Some advances have also taken place in transport, particularly the more extensive deployment of fiber and the development and

deployment of SONET technology. Although some changes have occurred in loop plant as well, particularly the deployment of fiber in the feeder portion of the loop plant, much of the loop plant is the same copper wire and cable that existed when price cap regulation was initially adopted.

Sprint has previously placed on the record substantial evidence supporting the fact that most of the technological changes (and hence improvements in productivity) have occurred in the switching component of access.<sup>1</sup> First, the C. A. Turner Telephone Plant indices<sup>2</sup> bear this out. Specifically, the plant index for digital switching shows a 32% drop between July 1990 and January 1998. By contrast, the metallic cable indices — for plant that is used in loop distribution — have increased in the range of 18-22% during the same period, while the indices for fiber cable (used in loop feeder and interoffice transport) have increased from zero to 8%.<sup>3</sup> Sprint also showed (*id.*, p. 4 of the attachment) that average interstate common line revenues were only 8% above the costs, whereas the traffic-sensitive revenues were triple the traffic-sensitive costs. Finally, Sprint showed that, overall, the Tier 1 companies enjoyed a 29.15% return on investment from switched traffic-sensitive access elements, but only 12.56% on interstate common line, based on the ARMIS data filed with the Commission (*id.*, p. 5). In acknowledging the need for targeting future reductions in access charges, the Commission not only relied on these data, but also calculations by both its staff and AT&T that show vastly higher

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<sup>1</sup> See *ex parte* letter, dated May 12, 2000 from Pete Sywenki of Sprint.

<sup>2</sup> These plant indices were designed as a generalized product, constructed from the Commission's Part 32 Uniform Systems of Accounts, to enable telephone companies to develop the reproduction cost of a telephone company's property at a selected test year date.

<sup>3</sup> See page 2 of the attachment to Sprint's May 12, 2000 letter.

profits from switching than from trunking and common line.<sup>4</sup> Given the reality of what has actually occurred in local telephone operations since 1991, it would have been arbitrary and capricious for the Commission to attempt to continue a system of non-targeted, across-the-board reductions in all access elements, as ALTS and Focal champion.

## **II. THERE IS NO “ADVERSE COMPETITIVE IMPACT” FROM ILEC REDUCTIONS IN LOCAL SWITCHING RATES**

ALTS/Focal also argue (at 11-13) that the Commission failed to come to grips with the arguments they and others had earlier presented that it would be competitively harmful for the Commission to require (or allow) ILECs to target reductions at local switching, which ALTS and Focal claim are subject to competition, while preserving rate levels in the allegedly less-competitive common line basket. ALTS/Focal utterly fail to offer any explanation of why the local switching access element is “competitive,” and there is a very good reason for that: it just isn’t so. If it were, new entrants like Focal and many members of ALTS would not be seeking to charge rates that are typically several times higher than those of the ILECs serving the same geographic region.<sup>5</sup> Rather than competing with ILECs in their charges to IXCs for local switching, CLECs compete by trying to gain the end user’s local business. And once the CLECs gain an end user customer, they have the very same bottleneck over access to and from their end users that even the largest ILECs possess. As Sprint has argued previously in CC Docket No. 96-

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<sup>4</sup> See Calls Order, n. 376 at paragraph 171.

<sup>5</sup> ALTS/Focal take umbrage at the Commission’s credence (in paragraph 169) of Sprint’s contention that CLECs are charging access rates that are significantly higher than those of the ILECs, but that is a simple fact — a fact that is apparent from examination of the CLEC access tariffs that are on file with the Commission.

262,<sup>6</sup> the CLECs higher-than-ILEC access charges are either a manifestation of sheer exploitation of bottleneck power or inefficient entry decisions by CLECs. These CLECs do not “compete” with ILECs for local switching in any meaningful way. The only impact they suffer from the CALLS plan is the embarrassment (if they are capable of embarrassment) from the slightly wider gap that now exists between the regulated charges of the incumbent LECs and the rapacious charges many CLECs seek to impose.

Contrary to being anti-competitive, the access reform plan adopted in the CALLS Order is pro-competitive by forcing ILECs to recover more of their common line costs than before directly from end users. Since, as noted above, competition in the local market is directed at end users, the ILECs’ total charges for local service (including end user common line charges) will send more economically rational pricing signals to the local retail market than previously was the case.

### III. CONCLUSION

For the foregoing reasons, the petition of ALTS/Focal for reconsideration of the CALLS Order is wholly without merit and should be denied.

Respectfully submitted,

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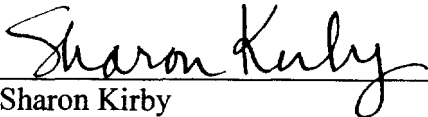
September 21, 2000

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<sup>6</sup> See, e.g., Sprint’s Comments filed October 29, 1999.

## CERTIFICATE OF SERVICE

I hereby certify that a copy of the foregoing Opposition of Sprint Corporation to the ALTS/FOCAL Petition For Reconsideration in CC Docket Nos. 96-262 and 94-1 was sent by United States first-class mail, postage prepaid, or hand delivery on this 21st day of September, 2000 to the parties listed below.

  
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